

Frontiers of Household Finance
Prof. Camelia Kuhnen (University of North Carolina at Chapel Hill)
August 2022, BI Norwegian Business School

Syllabus

Course overview

This course will cover research in household finance. We will discuss results and methods at the frontier of this field of finance and economics. We will consider several important economic decisions made by households concerning investments, leverage, consumption, and labor. We will examine how households approach these important decisions, what errors they might make in doing so, and which frictions they face when attempting to solve these problems.

Assignments and grading

The course grade will be based on class participation (25%), written assessments due daily during Monday, August 8 - Friday, August 12 (50%), and a final written assignment due by Thursday, August 18 (25%).

Each daily written assignment is due **before** the lecture. Specifically, by 8:00pm the day before each lecture, you must email your assignment, in PDF format, to camelia_kuhnen@kenan-flagler.unc.edu. The write-up length should be 2 pages, with single spacing, 11-pt font, 1-inch margins, and must include your name, and a title with the format "Assignment – Lecture [number]". You will also share your write-up with your classmates. The final assignment will require you to write up a brief research proposal related to household finance.

You will want to read the majority of the papers listed on this syllabus prior to the start of the course on August 8. We will cover a lot of material in a week, and it will be extremely helpful to you if you read these papers before August 8. Also, please note that your first written assignment is due at 8pm the day before the first lecture.

Timeline

Lecture 1 (Monday, August 8): Overview of Household Finance Research; Household Assets

Overview paper discussed:

Gomes, F., Haliassos, M., and Ramadorai, T. , 2021. Household Finance. *Journal of Economic Literature*, 59 (3), 919-1000.

Papers discussed regarding Household Assets:

Calvet, L. E., Campbell, J. Y., and Sodini, P., 2007. Down or out: Assessing the welfare costs of household investment mistakes. *Journal of Political Economy*, 115 (5), 707-747.

Fagereng, A., Guiso, L., Malacrino, D., and Pistaferri, L., 2020. Heterogeneity and persistence in returns to wealth. *Econometrica*, 88 (1), 115-170

Giglio, S., Maggiori, M., Stroebel, J., and Utkus, S., 2021. Five facts about beliefs and portfolios. *American Economic Review*, 111 (5), 1481-1522

Bursztyn, L., Ederer, F., Ferman, B., and Yuchtman, N., 2014. Understanding mechanisms underlying peer effects: Evidence from a field experiment on financial decisions. *Econometrica*, 82(4), 1273-1301.

Assignment: For a specific paper on Household Assets among the four above, assigned prior to class, you will produce a write-up (formatted as described above) that will include: a brief summary of the main results (1 paragraph), a description of which aspects of the paper are great (1-2 paragraphs), a description of the aspects of the paper which could be improved and suggestions for how this can be accomplished (3-4 paragraphs), and a discussion of how the paper helps the literature by providing closure for a puzzle or by suggesting interesting directions for future work (1-2 paragraphs). This document should be similar to a referee report. The write-up is due at 8:00pm the day before the lecture, in PDF form, by email to Camelia Kuhn.

Optional overview articles (useful references if you wish to pursue research in household finance):

Campbell, J., 2006. Household finance. *The Journal of Finance*, 61 (4), 1553-1604.

Campbell, J., 2016. Restoring rational choice: The challenge of consumer financial regulation. *The American Economic Review: Papers & Proceedings*, 106 (5), 1-30.

Beshears, J., Choi, J. J., Laibson, D., and Madrian, B. C., 2018. Behavioral Household Finance, chapter in the *Handbook of Behavioral Economics: Foundations and Applications*, edited by Bernheim, B.D., DellaVigna, S. and Laibson, D., Elsevier.

Lecture 2 (Tuesday, August 9). Household Debt: Mortgages, Credit Cards, and Payday Lending

Papers discussed:

Mian, A. and Sufi, A., 2009. The consequences of mortgage credit expansion: Evidence from the U.S. mortgage default crisis. *The Quarterly Journal of Economics*, 124 (4), 1449-1496.

Adelino, M., Schoar A., and Severino, F., 2016. Loan originations and defaults in the mortgage crisis: The role of the middle class. *Review of Financial Studies*, 29 (7), 1635-1670.

Di Maggio, M., Kermani, A., Keys, B. J., Piskorski, T., Ramcharan, R., Seru, A. and Yao, V., 2017. Interest rate pass-through: mortgage rates, household consumption, and voluntary deleveraging. *American Economic Review*, 107(11), 3550-3588.

Ganong, P. and Noel, P., 2020. Liquidity versus wealth in household debt obligations: Evidence from housing policy in the great recession, *American Economic Review*, 110 (10), 3100-3138

Melzer, B. , 2011. The real costs of credit access: Evidence from the payday lending market. The Quarterly Journal of Economics, 126 (1), 517-555.

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Lecture 3 (Wednesday, August 10): Household Consumption

Papers discussed:

Parker, J. A., 2017. Why don't households smooth consumption? Evidence from a 25 million dollar experiment. American Economic Journal: Macroeconomics, 9(4): 153-183.

Olafsson, A. and Pagel, M., 2018. The liquid hand-to-mouth: Evidence from personal finance management software, Review of Financial Studies, 31 (11), 4398-4446

Bertrand, M. and Morse, A. , 2016. Trickle-down consumption. The Review of Economics and Statistics, 98(5): 863–879.

Ganong, P. and Noel, P., 2019: Consumer spending during unemployment: Positive and normative implications. American Economic Review, 109 (7): 2383-2424

Mian, A., Rao, K., and Sufi, A., 2013: Household balance sheets, consumption, and the economic slump, Quarterly Journal of Economics, 1687-1726.

Optional overview article:

Jappelli, T. and Pistaferri, L., 2010: The consumption response to income changes. Annual Reviews of Economics, 2:479-506

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Lecture 4 (Thursday, August 11): Heterogeneity in households' preferences and expectations

Papers discussed:

Malmendier, U. and Nagel, S., 2011. Depression babies: Do macroeconomic experiences affect risk taking? *The Quarterly Journal of Economics*, 126 (1), 373-416.

Das, S., Kuhnen, C. M. and Nagel, S., 2020. Socioeconomic status and macroeconomic expectations. *Review of Financial Studies*, 33 (1), 395-432.

Bailey, M., Cao, R., Kuchler, T. and Stroebel, J., 2018. The Economic effects of social networks: Evidence from the housing market. *Journal of Political Economy*, 126(6): 2224-2276

D'Acunto, F. , Hoang, D. and Weber, M., 2022. Managing households' expectations with unconventional policies, *Review of Financial Studies*, 35 (4), 1597-1642

Assignment: For a specific paper among those indicated for the lecture, assigned prior to class, you will produce a write-up (formatted as described above) that will include: a brief summary of the main results (1 paragraph), a description of which aspects of the paper are great (1-2 paragraphs), a description of the aspects of the paper which could be improved and suggestions for how this can be accomplished (3-4 paragraphs), and a discussion of how the paper helps the literature by providing closure for a puzzle or by suggesting interesting directions for future work (1-2 paragraphs). This document should be similar to a referee report. The write-up is due at 8:00pm the day before the lecture, in PDF form, by email to Camelia Kuhnen.

Lecture 5 (Friday, August 12): Financial institutions, labor markets, and human capital

Papers discussed:

Hsu, J. W., Matsa, D. A., and Melzer, B., 2018. Unemployment insurance as a housing market stabilizer, *American Economic Review*, 108(1), 49-81.

Sun, S.T. and Yannelis, C., 2016. Credit constraints and demand for higher education: Evidence from financial deregulation. *Review of Economics and Statistics*, 98 (1): 12-24.

Kuhnen, C. M. and Melzer, B. T., 2018. Non-cognitive abilities and financial delinquency: The role of self-efficacy in avoiding financial distress, *Journal of Finance*, 73 (6): 2837-2869.

Brown, J. R., Cookson, J. A., and Heimer, R. Z., 2019. Growing up without finance, *Journal of Financial Economics*, 134, 591-616

Assignment: For a specific paper among those indicated for the lecture, assigned prior to class, you will produce a write-up (formatted as described above) that will include: a brief summary of the main results (1 paragraph), a description of which aspects of the paper are great (1-2 paragraphs), a description of the aspects of the paper which could be improved and suggestions for how this can be accomplished (3-4 paragraphs), and a discussion of how the paper helps the literature by providing closure for a puzzle or by suggesting interesting directions for future work (1-2 paragraphs). This document should be similar to a referee report. The write-up is due at 8:00pm the day before the lecture, in PDF form, by email to Camelia Kuhnen.